15th May, 2018

BSE Limited Corporate Relations Department P J Towers Dalal Street **Mumbai - 400 001** **Scrip Code: 532300**	**National Stock Exchange of India Limited** Exchange Plaza Bandra Kurla Complex Bandra (E) **Mumbai - 400 051** **NSE Symbol: WOCKPHARMA**

Dear Sirs,

We have to inform you that CARE Ratings Limited (CARE Ratings) has:

1. revised the Company's Rating for Long-Term Bank Facilities (Fund Based Working Capital limit) as "CARE A; Negative [Single A; Outlook: Negative]" from "CARE A+; Stable [Single A Plus; Outlook: Stable]";

2. reaffirmed Company's Rating for Short Term Bank Facilities (Non-Fund Based Working Capital limit) as "CARE A1 [A One]"; and

3. revised the Rating for the proposed issue of NCDs for an amount of Rs. 500 crore of the Company as "CARE A; Negative [Single A; Outlook: Negative]" from "CARE A+; Stable [Single A Plus; Outlook: Stable]".

Further to inform you that CARE Ratings has revised the ratings of the Company as above owing to lower sales due to destocking issues post GST implementation in India, cost incurred on account of on-going remedial measures, delay in resolution of regulatory issues with the US FDA, research & development expenses and continued pricing pressure in the USA. The detailed Press Release of CARE Ratings, being uploaded by them on their website, is also enclosed for reference.

Kindly take the above information on record.

For **Wockhardt Limited**

Narendra Singh
Company Secretary

Encl: as above

Wockhardt Limited

May 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Fund Based)	900.00	**CARE A; Negative [Single A; Outlook: Negative]**	**Revised from CARE A+; Stable [Single A Plus; Outlook: Stable]**
Short Term Bank Facilities (Non-Fund Based)	533.80	**CARE A1 (A One)**	**Reaffirmed**
Total Facilities	**1,433.80 (Rupees One thousand Four hundred Thirty Three crore and Eighty lakhs only)**		
Non-Convertible Debenture - I issue (Proposed)	250 (Rupees Two Hundred Fifty crore only)	**CARE A; Negative [Single A; Outlook: Negative]**	**Revised from CARE A+; Stable [Single A Plus; Outlook: Stable]**
Non-Convertible Debenture - II issue (Proposed)	250 (Rupees Two Hundred Fifty crore only)	**CARE A; Negative [Single A; Outlook: Negative]**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities and proposed Non-Convertible Debenture issue of Wockhardt Limited (WL) takes cognizance of further deterioration in its operational performance in FY18 (refers to period from April 1, 2017 to March 31, 2018) owing to lower sales traction leading to lower absorption of fixed costs, destocking issues post GST implementation in India, cost incurred on account of on-going remedial measures, etc. Furthermore company reported PBILDT loss in Q4FY18 which was not in-line with estimates. This decline in operational performance in last two fiscals has resulted in decline in liquidity profile of the company with increasing net debt position.

Furthermore, company continues to remain exposed to significant delay in resolution of regulatory issues with the US Food and Drug Administration (USFDA) despite on-going remedial measures, continuous expenditure towards research and development (R&D) and continued pricing pressure in the U.S.A. The ratings also take into account the company's focus on cost containment and rationalization and expected growth in operations through third party manufacturing.

Nevertheless, the ratings continue to derive strength from the established track record and experience of the promoters in the global pharmaceutical industry, WL's strong and diversified product portfolio across multiple therapeutic segments with established marketing network and global presence, accredited manufacturing facilities with R&D focused approach, and comfortable financial risk profile driven by adequate cash balances.

The ratings continue to be constrained by WL's exposure on regulated markets, especially the US, which is witnessing increased competition resulting into pricing pressure in the generics space and heightened regulatory scrutiny and exposure to foreign exchange fluctuations. The ratings also factors in sizeable debt repayment obligations especially in FY19, albeit company's plan to maintain adequate liquidity and also partly refinance the same.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Ability of the company to successfully ramp up operations, achieve adequate profitability through third party manufacturing as envisaged, and resolution of pending USFDA regulatory issues remains key rating monitorable.

Outlook: Negative

The 'Negative' outlook reflects uncertainty in terms of required improvement in operating revenues as well as generation of operating cash-flows. Furthermore, company continues to face significant delay in resolution of regulatory issues with the US Food and Drug Administration (USFDA) despite on-going remedial measures. Outlook may be revised to 'Stable' in case of improvement in operating revenues as well as generation of operating cash-flows.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoters along with WL's long and established track record of operations: WL has an established track record of over five decades in the pharmaceutical business catering across various therapeutic segments along with presence across the globe. With this extensive network of manufacturing units and research centers located in different parts of various countries, the company has established its foothold in the global pharmaceutical arena. Over the years under the able guidance of Dr. Habil. F. Khorakiwala (Chairman), first generation entrepreneur, the company has grown to become one of the established players in the Pharmaceuticals and Biotech business.

Strong diversified product portfolio along with established brands spread across multiple therapeutic segments: The product portfolio of the company is well diversified marked by its presence in key therapeutic segments including niche segments viz. Cardiology, Dermatology, Respiratory, Ophthalmology, Anti-Diabetic etc. During FY18, the company launched 12 new products in India (FY17: launched 24 new products). During FY17, the company had filed 311 patents and won 80 patents (cumulative basis filed 2,904 and won 533). Further, as on March 31, 2018 the company had cumulative filing of 3037 patents and totally held 628 patents. WL also has a strong pipeline of 70 ANDAs, as on March 31, 2018 awaiting approval, thus the product basket is well diversified across many therapeutic segments.

Accredited manufacturing facilities along with R&D focused approach: The Company has 12 manufacturing plants (9 in India, and one each in USA, UK and Ireland) which have the necessary international accreditations like UK-MHRA, USFDA, and WHO-GMP along with several country wise regulatory approvals. The wide infrastructure of the company is well served with large pool of Intellectual Property knowhow supported by large team of in-house scientists. Besides, the company has 3 Research and Development centers (in India, USA and UK). WL's R&D focuses mainly on development of innovative formulations across various therapeutic segments. Till date, the company has received the Qualified Infectious Disease Product (QIDP) status for five products for its Anti-bacterial discovery programs. This reflects the company's long term strategy of a concerted R&D effort to enable it to transform itself from a generic player to that of an innovator.

Slight deterioration yet adequate financial risk profile

On a consolidated basis, Overall gearing ratio deteriorated from 1.12 times as on March 31, 2017 to 1.31 times as on March 31, 2018 on account of increase in net debt and reducing net worth due to cash losses. Interest coverage ratio continued to remain below unity for last two fiscals due to moderate PBILDT and increase in finance cost.

Moreover in FY19, company has a huge debt obligation of Rs.1,359 crore (including preference share redemption of Rs.365 crore). Thus, going forward, ability of the company to maintain adequate liquidity for meeting the debt obligations due in FY19 remains key rating sensitivity.

Declined yet adequate liquidity profile

The company's liquidity profile declined marked by lower net debt position with cash & cash equivalents (incl. liquid investments) of Rs.1296 crore (as compared to Total debt of Rs.3,737 crore) as on March 31, 2018 vis-à-vis Rs.2,166 crore (Total debt of Rs.4,147 crore) respectively as on March 31, 2017. Over FY15-17, operating cycle of the company increased from 100 days to almost 150 days mainly on account of increase in receivables. The increase in collection period is owing to higher credit period extended to its clients especially in emerging markets, Russia and CIS countries. Consequently, average fund-based working capital utilization also remained high at around 73% during the 12-month period ended March 2018. In May 2018, company has re-approval (valid for one year) for QIP upto 1500 crore and NCDs upto Rs.1200 crore (for refinancing the existing debt).

Cash and cash equivalent (incl. liquid investments) provides liquidity cushion and will support the company in debt servicing in the medium term. Any significant decline in cash & cash equivalents remain key credit monitorable.

Key Rating Weaknesses

Deterioration in operational performance: The Company reported slight de-growth in sales of 2% to Rs.3937 crore in FY18 vis-à-vis FY17 in revenues owing to multiple reasons in various regions such as: subdued business in US due to ongoing import alerts imposed by USFDA on some of its plants and also genercisation of the product of the company in the US market, reclassification of taxes, destocking issues post GST implementation in India during Q1FY18, etc. This de-growth in income coupled with ongoing expenses in R&D has impacted profitability.

The company reported loss of Rs.153 crore in Q4FY18 vis-à-vis loss of Rs.43 crore in Q3FY18 and loss of Rs.207 crore in Q4FY17. Besides it reported loss of Rs.667 crore in FY18 vis-à-vis loss of Rs.226 crore in FY17. Furthermore it reported cash loss of Rs.517 crore in FY18 vis-à-vis cash loss of Rs.109 crore in FY17. This was largely due to onetime settlement expense of Rs 358 crore on account of supply contract with Cephalon Inc, (Cephalon) an affiliate of Teva Pharmaceuticals USA, Inc. (Teva) and also due to lower absorption of fixed costs, cost of ongoing remedial measures, and volatility in various currencies, etc. Going ahead, ability to the company to improve operating profitability remains a credit monitorable.

Significant delay in resolution regulatory issues: During FY14, the company has received import alert from USFDA and UKMHRA on compliance issues for Indian facilities (related to current good manufacturing practices regulations) and warning letters for CP Pharmaceuticals (UK) and Morton Grove Pharmaceuticals (USA) in March 2017 which has resulted in restriction on facilities which contributed higher proportion to total sales and also produced products which are higher margin accretive products. With approvals from UKMHRA in place, the company is continuously taking steps to resolve the pending regulatory issues and expects to address the concerns raised by USFDA at the earliest. Nevertheless, any further delay in resolving the same may dampen the prospects of revival of operations and remain a key credit monitorable.

Foreign exchange fluctuation risk

On consolidated basis, the company is predominantly an export oriented company with around 62% of its overall revenues is earned in foreign currency mainly denominated in USD (US Dollar) GBP and Euro. Thus, company is exposed to foreign currency fluctuation risk. However, there is a partial natural hedge available owing to manufacturing undertaken outside India, foreign currency term debts and sales outside India.

Increasing pricing pressures and prevailing intense competition in the global generics market

WL faces intense competition and pricing pressure in the global generics market. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

High dependence on regulated markets for Pharmaceutical segment

WL has its presence in multiple countries across the world. Considering the nature of the product usage and application, and consequent impacts, WL is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have a serious consequence on the operations of the company.

Nevertheless, the company is continuously taking adequate steps to address the regulatory risks.

Analytical approach: Consolidated

CARE has analysed WL's credit profile by considering its consolidated financial statements owing to financial and operational linkages between the parent and its subsidiaries.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Factoring Linkages in Ratings
Rating Methodology- Manufacturing Companies
Rating Methodology-Pharmaceutical Sector

Financial ratios-Non-Financial Sector

About the Company
Incorporated in 1960, founded by Dr. Habil F Khorakiwala is a large-sized Indian origin pharmaceutical multinational and bio-technology company engaged into developing, manufacturing and marketing of finished dosage and biopharmaceutical formulations, active pharmaceutical ingredients (APIs) and vaccines. Besides, the company has capabilities to produce sterile (injectable), biopharmaceuticals, orals (tablets and liquids), topicals (creams and ointments) for both exports as well as domestic markets. WL has a significant presence in USA, European Union and India. In addition, the company has market presence in Asian, African, South American, Middle-Eastern countries.

Consolidated Brief Financials-WL (Rs. crore)	FY17 (A)	FY18* (Abridged)
Total operating income	4,082	4,057
PBILDT	81	122
PAT	(226)	(667)
Overall gearing (times)	1.13	1.31
Interest coverage (times)	0.36	0.48

A: Audited
**As per the abridged financials available on BSE*

Status of non-cooperation with previous CRA: *None*

Any other information: *Not Applicable*

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	712.50	CARE A; Negative
Non-fund-based - ST-BG/LC	-	-	-	471.30	CARE A1
Fund-based - LT-Cash Credit	-	-	-	187.50	CARE A; Negative
Non-fund-based - ST-BG/LC	-	-	-	62.50	CARE A1
Debentures-Non Convertible Debentures	-	-	-	250.00	CARE A; Negative
Debentures-Non Convertible Debentures	-	-	-	250.00	CARE A

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	712.50	CARE A; Negative	-	1)CARE A+; Stable (22-Feb-18) 2)CARE AA-; Negative (05-Jul-17)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Oct-16)	1)CARE AA (08-Feb-16) 2)CARE AA (20-Apr-15)
2.	Non-fund-based - ST-BG/LC	ST	471.30	CARE A1	-	1)CARE A1 (22-Feb-18) 2)CARE A1+ (05-Jul-17)	1)CARE A1+ (28-Dec-16) 2)CARE A1+ (25-Oct-16)	1)CARE A1+ (08-Feb-16) 2)CARE A1+ (20-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	187.50	CARE A; Negative	-	1)CARE A+; Stable (22-Feb-18) 2)CARE AA-; Negative (05-Jul-17)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Oct-16)	-
4.	Non-fund-based - ST-BG/LC	ST	62.50	CARE A1	-	1)CARE A1 (22-Feb-18) 2)CARE A1+ (05-Jul-17)	1)CARE A1+ (28-Dec-16) 2)CARE A1+ (25-Oct-16)	-
5.	Debentures-Non Convertible Debentures	LT	250.00	CARE A; Negative	-	1)CARE A+; Stable (22-Feb-18) 2)CARE AA-; Negative (05-Jul-17)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Nov-16)	-

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CIN - L67190MH1993PLC071691